

INSTRUCTIONS FOR PREPARING A QUALIFIED ZONE ACADEMY BOND APPLICATION

Overview

Qualified Zone Academy Bonds ("QZABs") are taxable bonds issued by the Tennessee State School Bond Authority (the "Authority"), the proceeds of which are loaned to local governments to improve certain eligible public schools. In lieu of receiving periodic interest payments from the Authority, the holder of QZABs is generally allowed federal income tax credits while the bonds are outstanding. These credits compensate the holder for lending money and function as payments of interest on the bonds. As a result, the local government, which is the beneficiary of the proceeds of the bonds, pays little or no interest to borrow funds.

Federal income tax law imposes certain requirements relative to the issuance of QZABs. To comply with those requirements, the Authority needs to obtain very specific information from each borrower of proceeds of the QZABs to be issued by the Authority. The purpose of these instructions is to inform you of these requirements and the process relative to applying for participation in the QZAB program.

As is mentioned above, the proceeds of the QZABs are loaned to local governments. Local governments would include counties and cities that operate school systems. QZAB proceeds cannot be loaned directly to school boards as such boards generally do not have the power to borrow funds independently. For purposes of these instructions, the term "local government" will be used to refer to the county or city that would be the borrower of the proceeds of the QZABs, and the term "local education agency" or "LEA" will be used to refer to the school system of the county or city that actually operates the school or schools that will be the beneficiary of the proceeds of the QZABs.

The repayment of the loan of the QZAB proceeds to a local government is secured by the general obligation pledge of the local government (city or county) and the local government's portion of the state-shared taxes. The local government must authorize the issuance of the debt in compliance with all federal, state, and local regulations. QZAB proceeds are dedicated to specific programs in specific schools. §49-3-1206(d)(2), TCA states "Counties having a city or cities operating schools independent of the county or having special school districts operating schools independent of the county shall not be required to share proceeds of any loan agreement of a qualified zone academy project, notwithstanding any other law to the contrary".

General Requirements. Proceeds of QZABs can only be used to finance improvements for "Qualified Zone Academies" (an "Academy"). Therefore, before a local government applies to borrow proceeds of QZABs, the local government and the LEA for the local government must determine whether the LEA operates one or more Academies that would be eligible for QZAB financing. For federal tax purposes, each school (or at the election of LEA, an academic program within a school) is analyzed separately to determine whether the school (or program) is an Academy that is eligible for QZAB financing. Under federal tax laws, an Academy means any public school (or academic program within a public school) which is established by and

operated under the supervision of an eligible LEA to provide education or training below the postsecondary level if:

- such public school or program (as the case may be) is designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the increasingly complex workforce,
- students in such public school or program (as the case may be) will be subject to the same academic standards and assessments as other students educated by the eligible LEA,
- the comprehensive education plan of such public school or program is approved by the eligible LEA, and
- such public school is located in an empowerment zone or enterprise community, or
- there is reasonable expectation (as of the date of issuance of the bonds) that at least 35 percent of the students attending such school or participating in such program (as the case may be) will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act.

Under federal tax rules, the State of Tennessee, acting through the Authority, may issue QZAB bonds. A small portion of the proceeds of the QZABs must be used to pay costs of issuance relating to the QZABs.

A LEA may apply to borrow QZAB proceeds on behalf of more than one school or program within its system. The total QZAB loan amount for each local government must be at least \$50,000. Individual loans will be reviewed and recommended by the State Department of Education and approved by the Tennessee State School Bond Authority. Generally, no more than \$2,500,000 in loans will be approved for any local government. However, requests for more than \$2,500,000 will be reviewed on a case by case basis. All applications from a LEA must be submitted together with a single cover page. **However, if a LEA applies on behalf of more than one school or program, each individual school or program must qualify independently of any other school or program within the LEA.**

The proceeds of QZABs that are loaned to a local government must be used for:

- rehabilitating or repairing the public school facility in which the Academy is established, and/or
- providing or purchasing equipment for use at such Academy.

In Tennessee, the proceeds of QZABs may **not** be used for developing course materials for education to be provided at such Academy or training teachers and other school personnel in such Academy. Qualified contributions (as described below) may, however, be used for these activities.

[Title 26, Subtitle A, Chapter 1, Subchapter U, Part IV, Section 1397E, of the United States Code](#) contains the laws quoted in these instructions and application.

Private Business Contribution Requirement. In addition to requirements outlined above, each LEA must obtain for each Academy that is to be the beneficiary of QZAB proceeds written commitments from private entities to make qualified contributions (as defined below) having a present value (as of the date the QZABs are issued) of not less than 10 percent of the proceeds of the QZAB issue. **A contributor may not be a governmental entity.** For purposes of federal income tax law, the term "qualified contribution" means any contribution (of a type and quality acceptable to the eligible LEA) of:

- equipment for use in the Academy (including state-of-the-art technology and vocational equipment),
- technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom,
- services of employees as volunteer mentors,
- internships, field trips, or other educational opportunities outside the Academy for students, or
- any other property (including cash) or service specified by the eligible LEA.

Significantly, the qualified contribution for each Academy must have a present value as of the date of issuance of the QZABs of not less than 10 percent of the proceeds of the QZABs, including issuance costs, used by the LEA for such Academy calculated as of the issue date of the QZABs. To determine the present value of the qualified contributions, the Authority must use a reasonable discount rate which will be determined by the Authority at the time the QZABs are issued. Because the discount rate, the date of the issuance of the QZABs, and the amount of the issuance expenses relating to the QZABs cannot be definitely determined at the time applications are due, each LEA will need to make certain assumptions as to these items in determining whether adequate commitments for qualified contributions have been obtained. [Qualified Zone Academy Bond Rates](#) are updated daily by 10:00 a.m. each federal business day. To be conservative, LEAs should add 25 to 50 basis points to the current rate. To obtain the most current rate, go to [Qualified Zone Academy Bond Rates](#). A present value [calculator](#) can be obtained by clicking on this link. **Caution:** Make sure the mode of this calculator is set for "present value".

For purposes of this calculation, assume today is October 1, 2003. By clicking on [Qualified Zone Academy Bond Rates](#), it is determined that the discount rate is 5.37% compounded annually. The date of issuance of the QZABs will be May 1, 2004 and issuance expenses will be 5% of the proceeds of the QZABs that are borrowed by the local government for each Academy. If a local government desires to borrow \$1,000,000 of QZAB proceeds to make improvements to an Academy, the local government and its LEA should assume that issuance expenses will be \$50,000 (5% of the issue), and qualified contributions would be needed that have a present value of 10% of \$1,050,000 (i.e., \$105,000).

If the LEA has a commitment for a \$150,000 qualified contribution to be received on May 1, 2005, the present value of the contribution on May 1, 2004 at a discount rate of 5.87% (5.37% current rate plus 50 basis points) is \$141,683.20, which is in excess of the 10% contribution requirement (i.e., \$105,000). This is determined by going to the present value [calculator](#), making sure the calculator is set for present value, and entering \$150,000 as the future

value, 1 as the number of years when the contribution will be received, and 5.87% as the discount rate.

Because of these requirements, each LEA will be required to provide the following information with the application:

- the nature of the qualified contribution(s) to be provided to each Academy,
- the latest possible date on which such contribution is expected to be received by the Academy, and
- the fair market value of the qualified contribution as of the date of the Application (volunteer time should be estimated at reasonable fair market value for the community).

LEAs should not accept qualified contributions prior to the issuance of the QZABs without the prior approval of the Authority.

Application Deadline

Applications will be accepted twice annually, March 1 and September 1, until all funds have been obligated and/or the Federal government ceases the program. Applications must be submitted to the State Department of Education with a postmark on or before the deadline dates of March 1 or September 1. When the Department of Education receives at least \$5,000,000 in requests, a recommendation will be made to the Tennessee State School Bond Authority for the issuance of QZABs. Bond proceeds will be available approximately ninety (90) days after the application deadline, June 1 and December 1, provided applications received from all schools and recommended by the Department of Education exceed \$5,000,000 in total. Successful applicants will be notified in writing. Please respond completely to all items contained in this packet in order to ensure that your application can be processed in a timely manner and without delay.

Application Contents and Sequence

The sequence of the application should be as follows:

1. Cover page in any reasonable form selected by the LEA indicating: name of LEA, the name of each Academy for which QZAB proceeds would be used, the name of the Superintendent of the LEA, and the date of the application.
2. *Criteria for Eligibility Form* relative to each Academy for which QZAB proceeds will be used (form attached).
3. *Qualified Zone Academy Bonds Application Form* relative to each Academy for which QZAB proceeds will be used (form attached).
4. Commitments for qualified contributions. Each contributor must use the form provided as Exhibit A attached hereto.

AN ORIGINAL AND FOUR COPIES OF THE APPLICATION PACKET SHOULD BE ADDRESSED TO:

Karen Weidemann
Tennessee Department of Education
6th Floor, Andrew Johnson Tower
710 James Robertson Parkway
Nashville, TN 37243

If any applicant has questions regarding his application, or if any applicant needs assistance with respect to making any of the present value calculations that must be made in connection with the submission of this application, applicants may call Karen Weidemann at (615) 741-8835 or by e-mail at Karen.Weidemann@state.tn.us for assistance.

EXAMPLE OF HOW A QZAB COULD WORK

A manufacturing business is a major employer within the community. It has indicated a willingness to cooperate with a local school to establish a special academic program that would prepare students for jobs at the manufacturing facility. The business has agreed to donate state-of-the-art training equipment and computer software to the school, to facilitate training for teachers on using the equipment, to provide teaching materials, and to provide internship and mentoring experiences for students. The school has determined that it needs to renovate a classroom to prepare a laboratory to accommodate the donated equipment and purchase additional computers to run the software along with some furnishings. The school estimates that this would cost \$500,000. The LEA that operates the school determines that the school would qualify as a Qualified Zone Academy.

In order to qualify for the low-cost financing afforded through the Qualified Zone Academy Bond tax credit, the LEA that operates the school would need to take the following steps:

1. The LEA obtains from the business an estimate of the fair market value of the equipment, software, teacher training, and personnel time and facility cost associated with the internship and mentorship opportunities. In addition, the LEA obtains from the business a reasonable estimate of the latest possible dates that the LEA can expect to receive the contributions.
2. If the fair market value, presently valued to the date of issuance of the QZABs, of the business' donation is equal to or greater than at least 10 percent of the proceeds of the QZABs, including issuance costs (10% of \$500,000 or \$50,000 in the example provided) to be used for the school, the LEA would obtain a written commitment of the donation from the business.
3. The governing bodies of the local government and the LEA adopt resolutions approving submission of an application to receive a loan of proceeds of the QZABs.
4. The LEA seeks a loan of QZAB proceeds from the Tennessee Department of Education for an amount equal to \$500,000 (the amount the local government expects to borrow) by preparing the application package included with these instructions. If the application is approved, the Tennessee Department of Education will provide a written verification of an allocation of the QZAB volume to the local government, the LEA, and the Authority.
5. The local government and the Authority will determine the method of repayment of the \$500,000. The QZAB tax credit mechanism will generally eliminate any interest cost associated with the loan to the local government, but the loan of the proceeds of the QZABs to the local government is still a borrowing that must be repaid.
6. The governing body of the local government and the LEA adopt appropriate resolutions approving the borrowing of the proceeds of the QZABs and the application of such proceeds for the qualifying project.

7. The Authority arranges for the sale of the QZABs. Upon such sale, the Authority will retain the proceeds of the QZABs and invest such proceeds until they are disbursed to the local government. Such disbursements will be made only upon receipt of appropriate documentation by the Tennessee Department of Education.
8. The proceeds of the QZABs that are loaned to the local government are used to renovate the classroom and purchase equipment.
9. The local government repays the amount of QZAB proceeds borrowed from the Authority in accordance with an amortization schedule set by the Authority to comply with federal tax laws.

CRITERIA FOR ELIGIBILITY

Each school (or academic program within a school) for which QZAB proceeds will be used must meet certain minimum eligibility criteria as a condition to apply and receive QZAB proceeds. This *Criteria for Eligibility* form is intended to assist applicants in determining whether these minimum eligibility criteria are met. **Please complete a separate *Criteria for Eligibility* form for each Qualified Zone Academy for which application is made.**

Name of Local Education Agency: _____

Name of School or Program for Which Application is to be made: _____

Check all that apply:

_____ The school or program listed above is located in an *empowerment zone* or *enterprise community*. (In Tennessee these include portions of the cities of Memphis, Nashville and Knoxville, and Haywood, Fayette, and Scott Counties.)

OR

_____ The school or program listed above has at least 35 percent or more of students eligible for free lunch or reduced lunch under the National School Lunch Act. Specify percentage of students eligible for free or reduced-cost lunches: ____%.

***Note:* This form must be completed for each school or program Academy for which QZAB proceeds are requested.**

QUALIFIED ZONE ACADEMY BONDS
Application Form for Receipt of Proceeds of Qualified Zone Academy Bonds
Tennessee State School Bond Authority
and
Tennessee Department of Education

Please complete a separate application for each Qualified Zone Academy for which application is made.

SECTION I: GENERAL INFORMATION

Applicant

(Legal Name of Local Education Agency ("LEA"))

Name of Superintendent

Mailing Address (Street, City, State, Zip Code)

County

Telephone Number (Area Code & Number)

Fax Number (Area Code & Number)

()

()

Name & Title of Contact Person

Mailing Address (Street, City, State, Zip)

Telephone Number (Area Code & Number)

Fax Number (Area Code & Number)

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E-mail Address

Name of Qualified Zone Academy for which Application is made:

Authorization Amount Requested for Qualified Zone Academy Bond Issue with respect to the
Qualified Zone Academy: \$ _____

SECTION II: LEA APPROVAL

We the undersigned affirm that:

- this school meets the *Criteria for Eligibility* set forth on the form submitted with this QZAB application.
- this project is a part of a comprehensive plan approved by the local education agency.
- students of the school will be subject to the same academic standards and assessments as other students educated by the system.

Name of Superintendent
(Please print or type)

Name of Chairman of School Board
(Please print or type)

Signature of Superintendent

Signature of Chairman

Date

Date

Approval of this action is recorded in the official minutes of the LEA's board meeting held on _____, 20____ and a certified copy of said minutes are attached hereto as Annex I.

SECTION III: LOCAL GOVERNMENT APPROVAL

Name of Local Government

Location

This is to certify that at a meeting on _____, 20 __, the governing body of the above named local government approved the submission of this application in the amount of \$ _____. A certified copy of the minutes of said meeting are attached hereto as Annex II.

Name of Government Official

Title

Signature of Government Official

Date

Contact Person

Telephone Number

()

How frequently does the governing body of the local government meet in regular session? _____

SECTION IV: PROGRAM DESCRIPTION

Part A

Name of Qualified Zone Academy: _____

Part B

Describe how programs of the Qualified Zone Academy identified in Section I above have been designed in cooperation with business to enhance the academic curriculum, increase graduation rates, and better prepare students for the rigors of college and the increasingly complex workforce. (If desired, the complete plan may be attached). _____

Part C

State the goals of the program for which QZAB proceeds will be utilized at the Qualified Zone Academy. _____

Part D

1. Attach a written commitment from each contributor of a qualified contribution for the school or program. The form of written commitment to be provided is attached to this application as Exhibit A.
2. Attach a list summarizing the qualified contributions for each school, the dates such qualified contributions will be made, and the present value of such qualified contributions as of June 1 or December 1 of the year application is made, using the most current discount rate, plus 50 basis points. To assist LEAs in determining the present value of

qualified contributions, [Qualified Zone Academy Bond Rates](#) can be obtained at this link and a present value [calculator](#) can be found at this link. ***Make sure the calculator is set to present value mode.*** These links can be used to allow LEAs to quickly calculate the present value of a qualified contribution to be received at a later date.

Part E

Provide labor market and/or employer needs for the school or program for which the application is made. _____

Part F

Provide a brief explanation regarding how the programs at the proposed Qualified Zone Academy relate to the local school improvement plan. _____

Part G

Describe how the programs described above will be sustained after the initial investment of QZAB proceeds and other contributions described herein. _____

Part H

If the Qualified Zone Academy has implemented a recognized reform model such as "High Schools That Work" or "New American Schools", please describe. _____

SECTION V: PROJECT FUNDING

Complete the information requested below for each Qualified Zone Academy for which application is made and attach a justification (including an equipment list and cost estimates) regarding the costs included on the proposed budget.

Enter the aggregate present value of private contributions on this page if multiple private contributions are to be made to the Qualified Zone Academy.

REMINDER: The total QZAB loan amount for the local government must be at least \$50,000. Individual loans will be reviewed by the Tennessee Department of Education and recommended to the Tennessee State School Bond Authority for approval. Generally, no more than \$2,500,000 in loans will be approved for any single local education agency. However, requests for more than \$2,500,000 will be reviewed on a case by case basis.

Name of Qualified Zone Academy: _____

<i>Proposed Budget/ Contribution Item (if applicable)</i>	<i>Funds Requested from QZAB</i>	<i>Local Government/ Private Contributions</i>
Repair/Rehabilitation of Academy Facility	\$	\$
Equipment Purchase	\$	\$
Course Materials/ Development*	XXXXXXXXXX	\$
Training Teachers/ Other School Personnel*	XXXXXXXXXX	\$
Other Items* (including field trips, mentoring, etc.)	XXXXXXXXXX	\$
Totals	\$	\$

* Funding for these items may come from private contributions or from other funding sources but are not allowable from QZABs. Multiple private contributions are allowable.

NOTE: Appropriate bidding procedures must be followed.

EXHIBIT A

EXPLANATION OF QUALIFIED ZONE ACADEMY BOND FINANCIAL COMMITMENT LETTER

Please provide this explanation to Contributors

The Tennessee State School Bond Authority (the "Authority") plans to issue Qualified Zone Academy Bonds ("QZABs") and loan the proceeds thereof to certain local governments. QZABs are taxable bonds, the proceeds of which are used to improve certain eligible public schools. In lieu of receiving periodic interest payments from the issuer, an eligible holder of QZABs is generally allowed annual federal income tax credits while the bonds are outstanding. These credits compensate the holder for lending money to the issuer and function as payments of interest on the bonds.

Federal income tax law imposes certain requirements relative to the issuance of QZABs. To comply with those requirements, the Authority needs to obtain very specific information from each borrower of proceeds of the QZABs. One of the requirements imposed by federal income tax law relates specifically to private financial contributions to the borrower. To qualify for the use of QZAB proceeds, each borrower must obtain written commitments from private entities to make "qualified contributions" to the borrower having a present value (as of the date of issuance of the QZABs) of not less than 10% of the proceeds of the QZABs to be used with respect to each school (or program within a school). Because this requirement applies to each school at which QZAB proceeds will be spent, a separate financial commitment letter must be completed for each such school to which contributions will be made.

For purposes of federal income tax law as it relates to QZABs, a "qualified contribution" means any contribution (of a type and quality acceptable to the local education agency) of (i) equipment for use in the qualified zone academy (including state-of-the-art technology and vocational equipment), (ii) technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom, (iii) services of employees as volunteer mentors, (iv) internships, field trips, or other educational opportunities outside the academy for students, or (v) any other property (including cash) or service specified by the local education agency. The contributions must be for the use of the school and cannot be college scholarships for students once they have graduated from the school.

As noted above, "qualified contributions" must have a present value of not less than 10% of the proceeds of the QZABs used by the borrower with respect to each school. Therefore, it is critical to identify an outside date by which the contribution or contributions will be made.

In determining the value of contributions, a contributor should use the reasonably expected fair market value of the contribution at the time the contribution will be made. The value of contributions of services of employees of the contributor is the reasonably expected fair market value of those services.

FINANCIAL COMMITMENT LETTER

Please use this form, duplicated as needed. Use a separate form for each school or program to which contributions will be made

The undersigned _____ [name of private entity], hereby agrees to make the contributions identified below to _____ [name of school or program within a particular school].

Name of Business: _____

Address: _____

Phone Number: (_____) _____ Fax Number: (_____) _____

Contact Person: _____

Title: _____

[IF THE SPECIFIC NATURE OF THE FINANCIAL COMMITMENT IS KNOWN, PLEASE COMPLETE PART A AND DO NOT COMPLETE PART B. IF THE SPECIFIC NATURE OF THE FINANCIAL COMMITMENT IS NOT KNOWN, PLEASE SKIP PART A AND COMPLETE PART B.]

PART A

The undersigned commits to make the qualified contributions identified on the attached schedule by the dates indicated on such schedule. The undersigned has complied with the following instructions in completing the schedule.

Column 1. Describe the nature of the contribution that is expected to be made. The contribution must be a "qualified contribution" described in the attached explanation.

Column 2 Identify the latest possible date that each such qualified contribution is expected to be made. **If more than one contribution will be made (i.e. the contribution will be made in more than one installment), please list each contribution separately.**

Column 3 Enter the value of your "qualified contribution" as of the last date such contribution will be made.

Date: _____, 20_____

(Insert name of contributor)

By: _____

Title: _____

SCHEDULE TO PART A

NAME OF SCHOOL:_____

1	2	3
<i>Description of Contribution</i>	<i>Last Date By Which Contribution Will Be Made</i>	<i>Value of Contribution</i>

PART B

Although the undersigned has not identified the specific nature of the contributions to be made to the school identified above, the undersigned has been informed of the types of contributions that will constitute qualified contributions. The undersigned commits to make qualified contributions to the school (or program within a school) with a value at least equal to the amounts shown on the attached schedule by the dates shown on the attached schedule.

Date: _____, 20 _____

(Insert name of contributor)

By: _____

Title: _____

SCHEDULE TO PART B

NAME OF SCHOOL:_____

1	2
<i>Value of Qualified Contributions</i>	<i>Last Date By Which Contribution Will Be Made</i>